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S E C R E T SECTION 01 OF 02 VIENNA 000664

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TAGS: [PREL](#) [EFIN](#) [AU](#) [ENGR](#)

SUBJECT: AMBASSADOR RAISES RUE/RAIFFEISEN WITH FINANCE
MINISTER KARL-HEINZ GRASSER

REF: A) VIENNA 515 B) VIENNA 309 C) 05 STATE 220738

Classified By: Ambassador Susan R. McCaw for reasons 1.5 (b) and (d)

Summary

1. (S) During a February 28 meeting with Finance Minister Karl-Heinz Grasser, Ambassador McCaw raised continuing USG concerns over the non-transparent RUE gas deal and the key involvement of an Austrian bank, Raiffeisen Investment Holding AG (RIAG), in the RosUkrEnergo (RUE) joint venture. The Ambassador urged the GoA to help the U.S. obtain additional information regarding RUE's structure and possible links to organized crime. According to Grasser, given that the joint venture was established in Switzerland, the GoA had no legal basis to force RIAG to reveal the unidentified beneficiary, who controls 50% of the RUE joint venture. Grasser noted that Raiffeisen compliance officials had visited Washington the week of February 21 to discuss the RUE gas deal. Raiffeisen officials subsequently told the Embassy that, based on their DoJ meeting, they believe they have addressed all outstanding U.S. concerns. Grasser said the GoA would continue to discuss USG concerns with Austrian banks, but noted that the GoA was still waiting on a promised one-page information sheet for use with the banks. Grasser also expressed frustration with USG attempts to "undercut" Raiffeisen's expanding relationship with the EBRD, without consulting with Austrian authorities. End Summary.

Lack of Transparency in RUE Gas Deal

2. (S) During a February 28 meeting with Finance Minister Karl-Heinz Grasser, Ambassador McCaw raised the USG's continuing concerns regarding the role of Raiffeisen Zentralbank's (RZB) subsidiary, Raiffeisen Investment Holding AG (RIAG) in RosUkrEnergo (RUE). She noted especially RUE's lack of transparency and its apparent links to Russian organized crime. The Ambassador highlighted that she had recently asked both MFA State Secretary Hans Winkler and MFA Secretary General Johannes Kyrle for assistance in getting

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more information about the RUE deal. The Ambassador emphasized that, as the U.S. and Austria began preparations for a U.S.-EU Summit, it was imperative to address lingering negative perceptions about the RUE deal and other concerns about RZB banking operations (ref C). RZB/RIAG must either deal directly with identifiable problems or provide sufficient reassurance that it has resolved the outstanding questions.

3. (S) Grasser replied that the GoA understands the RIAG role in RUE is that of a trustee, holding RUE shares on behalf of an unidentified beneficiary. Given that the joint venture was established in Switzerland, Grasser argued strenuously that the GoA had no legal basis to request RIAG to reveal the beneficiary's identity. Grasser opined that the USG would be in a similar situation if a U.S. bank served as a trustee for an unidentified beneficiary.

4. (S) Grasser noted that RZB/RIAG compliance officials had visited Washington last week to discuss the RUE deal with USG officials. Grasser said it was his understanding that RZB/RIAG had produced all the information requested. Grasser asked if there was now additional information that the USG wanted. (Embassy Note: RZB compliance officials subsequently confirmed to us that their only meeting in Washington was with DoJ officials to discuss the RUE joint venture. RZB officials also maintained that, based on their DoJ meeting, they believed they have responded to all outstanding USG concerns. End Note)

Grasser: GoA Welcomes More Specifics to Engage With Banks

5. (S) Grasser pointedly contrasted the GoA's engagement with Austrian banks with the USG's inability to produce a promised one-page background paper (ref B) for use with RZB and Bank Austria/Creditanstalt (BA/CA). How could the U.S. now expect him to go back to RZB with another set of general suspicions regarding RUE without any further specifics? Nevertheless, Grasser promised that he would once again raise

USG concerns during a March 2 meeting with RZB officials. Grasser added that the GoA also was frustrated with USG attempts to "undercut" RZB's expanding relationship with the EBRD, without any consultation with Austria, at the same time the GoA was working to address USG concerns.

16. (S) Alongside issues related to RUE, Grasser also underscored that the GoA had taken the original concerns about dubious practices by Austrian banks very seriously, and had stressed to U/S Levey (ref B) that the GoA would not condone Austrian banks' relationships with North Korean or Iranian WMD proliferators. Grasser said he had personally met with BA/CA CEO Erich Hampel, who assured Grasser that BA/CA would stop its business relations with North Korean entities (ref A).

Chancellor's Diplomatic Advisor on RUE

17. (S) In a March 1 meeting with the DCM, the Chancellor's Diplomatic Advisor, Hanz-Peter Manz, said he had stressed to Austrian banks the importance of maintaining their international reputations in the course of expanding business in Eastern Europe. Manz added that Chancellor Schuessel himself is keenly aware of this issue and the implications for the reputations of Austrian banks. Manz also said that RZB compliance officials reported that their Washington meeting with DoJ had satisfactorily answered all USG concerns. Manz stressed that, if the RZB assessment was not correct, the GoA would like to know.

McCaw